

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 SP-02 AID-05 NSC-05 TRSE-00  
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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 5001

C O N F I D E N T I A L KINGSTON 2034

E.O. 11652: GDS

TAGS: PFOR, EFIN, ECON, JM

SUBJECT: JAMAICAN DUAL EXCHANGE RATE: TEMPORARY?

1. BANK OF JAMAICA DEPUTY GOVERNOR GLADSTONE BONNICK IS REPORTED BY JAMAICA DAILY NEWS APRIL 28 TO HAVE TOLD JAMAICAN CHAMBER OF COMMERCE MEETING APRIL 27 THAT NEWLY ESTABLISHED DUAL EXCHANGE RATE WOULD BE DIFFICULT TO ADMINISTER AND WOULD BE A TEMPORARY MEASURE. HE DID NOT STATE WHETHER THE PRESENT SYSTEM WOULD BE REPLACED BY A FULL DEVALUATION OR A RETURN TO THE OLD SINGLE RATE. HE LEFT A STRONG INFERENCE THAT THERE WOULD IN TIME BE A FULL DEVALUATION.

2. FOLLOWING IS FULL TEXT OF STORY, THE ACCURACY OF WHICH WAS CONFIRMED TO US BY CHAMBER OF COMMERCE MEMBERS PRESENT AT MEETING.

3. BEGIN TEXT. "BANK OF JAMAICA DEPUTY GOVERNOR GLADSTONE BONNICK YESTERDAY TOLD MEMBERS OF THE JAMAICA CHAMBER OF COMMERCE THAT THE OPERATION OF A DUAL EXCHANGE RATE WOULD BE A TEMPORARY MEASURE.

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"HE SAID THE OPERATION OF THE SYSTEM  
WOULD BE DIFFICULT.

'WE HAVE HAD NO EXPERIENCE IN HANDLING A MULTIPLE RATE  
STRUCTURE.'

"HE ADDED THAT WHERE IT WAS OPERATED IN OTHER COUNTRIES

IT WAS DIFFICULT TO ADMINISTER. IT IS USUALLY TREATED AS AN INTERIM MEASURE AND PHASED OUT AS EARLY AS POSSIBLE.

"DR. BONNICK DID NOT SAY, HOWEVER, WHAT WOULD HAPPEN WHEN THE TWO TIER EXCHANGE RATE WAS ABANDONED.

"HE LATER TOLD THE DAILY NEWS THAT SUCH A STRUCTURE HAD BEEN USED IN BRAZIL, FRANCE AND THE UK. IT HAD BEEN USED FOR ABOUT SIX MONTHS IN SOME CASES.

"HE ALSO ADDED THAT THE INTERNATIONAL MONETARY FUND DID NOT ENCOURAGE A DUAL OR MULTIPLE RATE STRUCTURE, AND IN FACT DISCOURAGED SUCH AN ARRANGEMENT.

"THE SPECIAL RATE WOULD BE APPLICABLE TO MOST TRANSACTIONS, DR. BONNICK SAID, ADDING THAT FOR ALL PRACTICAL PURPOSES IT WAS A DEVALUATION OF 37.5 PERCENT.

"ASKED WHAT WAS THE EFFECTIVE OVERALL DEVALUATION SINCE IN ACTUAL TERMS THE BASIC RATE WAS BEING SUBSIDIZED, DR. BONNICK SAID IT WORKED OUT AT BETWEEN 19 AND 20 PERCENT.

"THE INTENTION, HE SAID, WAS TO INCREASE THE COST OF CERTAIN IMPORTED GOODS, ALLOW EARNERS OF FOREIGN EXCHANGE TO BENEFIT MORE AND SO HELP TO BALANCE THE COUNTRY'S FOREIGN ACCOUNT.

"IN THE AREA OF ESSENTIAL COMMODITIES WHICH ATTRACTED

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THE BASIC RATE, DR. BONNICK SAID THERE WOULD BE SOME INCREASES BECAUSE OF THE PACKAGING INGREDIENT WHICH DID NOT ATTRACT THE BASIC RATE.

"THE BASIC RATE HAD TO BE APPLIED TO THE BAUXITE AND ALUMINA INDUSTRY, HE SAID, BECAUSE THAT INDUSTRY WAS A SUBSTANTIAL EARNER OF FOREIGN EXCHANGE AND IF THE SPECIAL RATE WERE APPLIED THE COUNTRY WOULD LOSE ABOUT \$40 MILLION.

"MEANWHILE, DR. BONNICK SAID CERTAIN ARRANGEMENTS WOULD HAVE TO BE MADE TO DEAL WITH THE SITUATION WHEREBY THE BAUXITE AND ALUMINA COMPANIES BOUGHT GOODS IMPORTED BY LOCAL AGENCIES.

"IN THE CASE OF CENTRAL GOVERNMENT, HE SAID, THE BASIC RATE HAD TO BE APPLIED SO THAT THE BUDGET WOULD NOT INCREASE. BUT IN THIS CASE, CENTRAL GOVERNMENT WOULD NOT INCLUDE STATUTORY BODIES AND CORPORATIONS WHO WOULD HAVE TO TRANSACT THEIR BUSINESSES AT THE SPECIAL

RATE, HE SAID." END TEXT

4. EVENING APRIL 27, PRIME MINISTER MANLEY TOLD A NATIONAL FARMERS' MEETING THAT THE TWO-TIER EXCHANGE RATE SYSTEM "MATERIALIZED MAINLY BECAUSE OF THE STEADY DECLINE OF THE BRITISH POUND AND BECAUSE OF THE ACTIVITIES OF THE IMF." HE LINKED (INACCURATELY) THE DROP IN JAMAICA'S AGRICULTURAL EXPORT EARNINGS FROM SUGAR AND BANANAS TO THE DECLINE IN VALUE OF THE BRITISH POUND AND NOTED THAT "THE IMF HAD REQUESTED GENERAL DEVALUATION." HE ALSO STATED THAT THERE HAD BEEN NO DEVALUATION IN THE JAMAICAN DOLLAR. THERE HAD RATHER BEEN ESTABLISHMENT OF A "SPECIAL EXCHANGE RATE; ANYONE WHO SAYS THERE HAS BEEN A DEVALUATION IS A LIAR."

5. COMMENT: GIVEN THE SAME-DAY JUXTA-POSITION OF BONNICK'S AND PRIME MINISTER MANLEY'S STATEMENTS, WE CAN SAFELY ASSUME  
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THAT BONNICK IS IN DEEP TROUBLE -- EVEN THOUGH HIS REMARKS DO ACCURATELY REFLECT THE PROBLEMS THE GOJ WILL HAVE WITH A TWO-TIER RATE. ONE SUSPECTS THAT THE BANK, IF NOT PRIME MINISTER MANLEY, DOES ASSUME A FULL DEVALUATION BEFORE TOO MANY MONTHS ARE OUT.  
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## Message Attributes

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